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REPORT

OF THE

COMMODITIES PRICES BOARD

ON

VANASPATI CONTROL AND PRICES

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NOTE

This report containing the views of the Commodities Prices Board on the question of control over Vanaspati prices is published for general information. The Government of India have not yet taken decisions on all the recommendations contained therein.

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VANASPATI CONTROL AND PRICES.

1. On 12th May 1947, we received a reference from the Finance Department No. JSG-1026/47, dated 10th May 1947, asking for the Board's advice on Vanaspati control and prices. As the matter was urgent, we were asked to reply by the 19th. We have been furnished with a number of Government files dealing with the subject though we could not get any file containing a statement of the reasons for the decontrol of the prices of edible oilseeds and oils. We have had the benefit of discussions with the Vegetable Oil Products Controller, Mr. Mone and the Joint Financial Adviser (Food), Mr. Saksena. Two representatives of the industry, Mr. Modi of the Modi Sugar Mills and Mr. Kirpanarain of the Ganesh Flour Mills came to Simla and explained to us the Industry's case.

2. It is necessary at the outset to consider the main grounds on which the continuance of control over Vanaspati may be held to be justified. It may, in the first instance, be argued that Vanaspati has become an important article of consumption of the middle classes in the country and even of the poor classes in some regions and that Government control over its price and distribution is highly desirable. It would, however, appear that this case for the control of Vanaspati is not the strongest. Vanaspati is not as essential an article of consumption for the masses of the people as a number of other products whose prices and distribution are not to-day controlled. It is obvious that vegetable oil from which it is prepared is more essential and more widespread in its use than Vanaspati. Therefore, it may well be argued that, if prices of vegetable oil are not attempted to be controlled by Government, there is much less justification for maintaining control over Vanaspati.

3. Vanaspati control when first imposed was the result of peculiar war conditions. It was imposed for itself and because of considerations that had nothing to do with the indirect results of such control. During war, the large needs of the Indian Army for a substitute for ghee could be satisfied only by the production of Vanaspati. For this reason Government specially encouraged and brought about the expansion of the Vanaspati industry helping a number of units in a variety of ways. Price determination was also, in the first instance, undertaken by Government for contracts for supply of Vanaspati to the Defence Department. Later on, with extension in the sphere of controls, price control on lines in force for Defence supplies was adopted for civil requirements also and distribution of the limited supplies through various areas was attempted. The requirements of Defence forces have been diminishing progressively and most of the production of Vanaspati factories is now available for consumption by the civil population. In the circumstances, control over Vanaspati has now to be judged in relation to the control of the prices and distribution of this product to civilian consumers.

4. If control over Vanaspati is not in itself considered a matter of great importance, its continuance to-day could be justified only because of certain indirect results that flow from it. It is clear that the decision to continue the control over Vanaspati after the attempt to control oil-seeds' prices and movements had been given up in March 1947 was

reached mainly with its indirect consequences in view. It was made clear in the first announcement of the continuance of control over Vanaspati prices that the price of Vanaspati being linked to groundnut prices and the purchases of Vanaspati manufacturers being a dominant factor in the oilseeds' market, the maintenance of control on Vanaspati prices was expected to influence the price of oilseeds. Vanaspati control was thus not continued for itself, but chiefly as an instrument through which an aim of Government policy could be indirectly achieved, an aim which Government had found it impossible to achieve by direct measures. From this point of view, the continuance of Vanaspati control is vitally linked with the future of Government policy regarding control of prices of oilseeds and other agricultural products.

5. The present situation in this regard is obscure. There have been some conflicting announcements made as to the continuance of controls over essential commodities. The control over Vanaspati as an indirect instrument of influencing prices of one important oilseed, namely, groundnut, could be justified only if Government had the intention of continuing to influence the price of groundnut in particular and of oilseeds in general for a fairly long period in the future. It might be argued, in that event, that though Government had to abandon direct plans of control this year, it continued to be vitally interested in checking a rise in the price of oilseeds and vegetable oils. Government desired definitely to control the prices of oilseeds and oils whether as part of its policy of checking the prices of essential consumers' goods, or of maintaining a parity relation between the prices of various products of agriculture or as part of its policy of keeping in check inflationary forces. The maintenance of Vanaspati control would then be only part of a long-term plan for the general control of oilseed prices. Government would, under this supposition, explore means and elaborate plans later, presumably before the beginning of the next season, for other oilseeds' controls. The retention of Vanaspati control to-day would mean no more than the retention of a part of a plan of general oilseeds' controls, which it had not become necessary to give up on the giving up of the earlier plans which had gone astray and which, in future, would be strengthened by better co-ordinated and better implemented plans of control.

6. It is, however, not possible at this stage to proceed entirely on this assumption. It is no doubt true that Government gave up its plans for the control of oilseeds' prices and movements in March of this year, largely because it found them unworkable. However, there has been no announcement relating to Government intentions regarding oilseeds' prices for the next year and at least in some quarters, the giving up of oilseeds' control has even been represented as part of a general policy of decontrol. Already the aftermath of the giving up of controls on oilseeds has been talked about as providing a lesson in the effects of decontrol. It is obvious that in relation to prices of groundnut, the giving up of direct oilseeds' control has not created a situation which is that of decontrol. As long as control over prices of Vanaspati is retained, an important indirect influence is being exercised by Government policy over the prices of groundnut. However, the continuance of Vanaspati control for a long period cannot be linked at this stage with an assumed or declared policy by Government regarding oilseeds. The particular form which the problem of Vanaspati control has now

taken and the immediate acute difficulties arising in respect of it are no doubt the result of the attempt on the part of Government to use Vanaspati control as a measure of and a substitute for direct oilseeds' control. The general continuance of Vanaspati control, however, cannot be tied up with this particular aspect of the question. If Government decides to continue both direct and indirect controls over oilseeds' prices, the continuance of Vanaspati control is obviously desirable.

7. The continuance of the control may at the same time be necessary from an entirely different point of view. Perhaps the strongest case for the continuance of Vanaspati controls is based on the long-term aims of such controls. The long-term aims of Vanaspati control are connected with the operation and the expansion of the Vanaspati industry. The Vanaspati industry is an industry whose activities have considerable influence on the health of the Indian people and on the development of Indian agriculture. Vanaspati competes with ghee indirectly and the repercussions of this competition on the development of agriculture and dairying need to be watched and controlled. But even more important than this is the influence on Indian economy of the expansion of this industry through its demand for oilseeds, especially groundnut. The industry already consumes from between a fifth to a quarter of the total production of groundnuts in India. Any rapid expansion of the industry would increase its consumption of groundnuts to a proportion which might seriously curtail the supplies available to other consumers especially in areas where groundnut oil is used as the normal edible vegetable oil by the bulk of the people. A considerable pressure of this type on groundnut supplies might force the internal price of groundnut out of parity with prices of other oilseeds and agricultural products. This contingency raises important questions of policy relating to the industry in the immediate future and Government cannot, unless it gives up all ideas of industrial and agricultural planning, give up control over the expansion of the industry.

8. Control over the expansion of the industry, however, necessarily involves control over prices. The majority of factories in existence to-day have come into being during war years and were specially helped during those years by Government to become established and to function by being enabled to obtain essential supplies. These factories might therefore be called privileged entities which will continue to enjoy a privileged position so long as a free and full expansion of the industry is not allowed in the country.

Curtailment or control of expansion gives to existing established producers a *quasi*-monopolistic position and it is obviously the duty of Government to see that they do not exploit it at the cost of the consumer. In spite of the exercise by Government of a regime of price control during the last three or four years, the profits of the industry are stated to have been large and there is an incessant demand on the part of capitalists to be allowed to establish new Vanaspati factories all over the country. In the circumstances, a rigid price control which duly protects the consumer and which prevents the abuse by existing producers of their sheltered position is a logical corollary to the control of the expansion of the industry by Government.

9. Control over Vanaspati has, thus, to be looked at from a variety of points of view. It can be considered as being necessary for a proper

distribution and pricing of an important consumer good. It can be looked upon as an instrument and as part of the whole plan of the control of prices of oilseeds and vegetable oil. Finally, it may become essential as part of long-term plans for controlled development of agriculture and of industrial resources. If on any of these grounds control over the free operation and expansion of Vanaspati factories is urgent, control over the prices of Vanaspati must also be exercised; if this is so exercised, the price at which Vanaspati is allowed to be marketed must have some reasonable relation to the objectives of control and must take into account the repercussions of the level of prices of Vanaspati on the working of agricultural economy through its effects on the level of prices of groundnut.

10. Before we proceed to discuss the determination of a reasonable price for Vanaspati, it is necessary to say something about existing controls over Vanaspati and their relation to our terms of reference. The existing controls over Vanaspati may be divided into three categories: Firstly, there are the controls over quality. Secondly, there are the controls over prices and distribution. Thirdly, there are the controls over expansion of industrial units and industrial production. Controls over quality are required for the maintenance of the quality of the product so that it is not harmful from the health or the nutrition point of view. Control over certain aspects of quality production are also useful for enabling detection of the adulteration of Ghee with Vanaspati. Both these types of quality controls have little to do directly with control over pricing and distribution. Some quality controls no doubt affect the average cost of production of the product. However, the effectiveness of quality control is unrelated to price control and depends entirely on the proper prescription of standards and tests of quality and on the efficiency of the Inspectorate. At the same time any type of Vanaspati price control, to be really effective, must be linked with quality control. There might be considerable variations in the quality of products like Vanaspati and the attempt to fix a set of uniform prices over wide regions must necessarily involve an attempt at the maintenance of minimum standards of quality production.

11. For purposes of control on Vanaspati prices, the country has been divided into four zones and a uniform price has been prescribed for sales by manufacturers within each zone for Vanaspati sold in large packs. There is also another set of zonal prices for sales in large packs and in loose small quantities by others than manufacturers. The controlled price for small packs is an All-India price which does not vary from zone to zone. This, in effect, means that manufacturers of small packs in zones with a lower than average cost of production get an extra margin of profit. The bulk of the production of small packs is in fact concentrated in zones with the lower costs of production. Price control has invariably to be supplemented by control over distribution. As yet no system of distribution to consumers on a rationing or *quasi*-rationing basis is anywhere enforced in relation to Vanaspati. The manufacturers distribute their production within certain areas through a chain of agents or wholesalers who, in turn, distribute to retailers. The main problems of enforcement of price and distribution control are the maintenance of the legal price at each stage and the maintenance of a proper system of distribution.

12. There is also another problem in connection with the distribution of Vanaspati which may be counted in as a problem of distribution and price control. This is the problem of getting Vanaspati distributed to consumers who want Vanaspati as such, and preventing it from getting into the hands of dealers whose demand for Vanaspati arises from operations of adulterating ghee with Vanaspati. It has been admitted that so far no proper solution of this problem has been found and it is generally estimated that at least half of the total production of Vanaspati is used not in direct consumption as Vanaspati but for purposes of adulterating ghee. Government has recently adopted a new device, the mixing of a certain minimum proportion of Sesamum oil in the production of Vanaspati, which, it is expected, will enable prompt detection of the adulteration of ghee with Vanaspati. The enforcement of quality as well as price and distribution controls is closely linked with adequacy of staff. The strength of the staff at the disposal of the Vegetable Oil Products Controller is said by him to be inadequate to-day. The fact that half the production of Vanaspati is in fact used in a direction in which it ought not to be used is sufficient commentary on the adequacy of present controls. The chief pressure on Vanaspati supplies is caused by the demand for adulterating ghee as the very large gap between the price of ghee and Vanaspati makes for high prices being paid for Vanaspati used as an adulterant. The Vegetable Oil Products Controller was not in a position to say that the present controlled prices are the prices that are necessarily obtained by the manufacturer for his product or are the prices at which the consumer ordinarily obtains the product. This, in effect, means that in his opinion controlled prices are to-day not necessarily the actual prices at either end of the distribution process.

Another problem of distribution to which some attention has been paid is the margin obtainable and ensured at each distribution stage. Here, again, the price obtained by the manufacturer and his profits of business may be enhanced by the manufacturer dispensing with any of the stages of distribution provided for in the structure of prices.

13. The main problems of control over prices and distribution are thus of the prevention of the diversion of Vanaspati to what may be called an illegitimate purpose and a proper enforcement of prices at each stage of distribution. None of these problems have any direct connection with the price level, or depend for their solution on any particular relation to that level. The gap between ghee prices and Vanaspati prices in India would, presumably, always remain very large. The prevention of the use of Vanaspati for adulterating ghee must, therefore, depend on direct action and will not be achieved or even facilitated through any type of price policy. In relation to other problems of price and distribution control the existing defects could be surmounted by more adequate and efficient staff and are not linked to any particular price policy. Almost all essentials are in short supply to-day. Because of this there are temptations to blackmarket in all directions. Apart from this feature, which is not peculiar to Vanaspati, there are no problems of price level determination arising out of price or distribution control.

The third set of controls over Vanaspati relate to the establishment and expansion of Vanaspati factories. These controls may work directly through licensing of the establishment and location of new factories or

may work indirectly through the operation of controls over capital issues, or the licensing of imports. The operation of these controls, are, however, not directly affected by the level of prices. If a price is otherwise reasonable, no special problems of enforcement arise in relation to the marketing of Vanaspati. The manufacture of Vanaspati is carried on in a very small number of units and its distribution takes place largely in cities and towns. Therefore, given energy and determination, the enforcement of necessary controls in relation to it should not present any special difficulties. In any case, no particular attention to problems of administration of controls has to be paid in considering the determination of the price of Vanaspati.

14. The price of Vanaspati has for some years past been controlled. The control of prices of Vanaspati is in the present system directly related to the price of groundnut oil which is by far the most important raw material used in its production. Even if the determination of Vanaspati prices were not directly linked to the prices of groundnut oil, Vanaspati prices would always depend vitally on movements of the price of that oil. In commenting on the present system of the control of Vanaspati or in recommending a reasonable level of prices for it, it is necessary to look at two aspects of the question; firstly, the basic price of groundnut oil that may be considered as reasonable and secondly, the relation of the controlled price of Vanaspati to the price of groundnut oil.

15. The prices of oilseeds in general, and of groundnut in particular, have had a varied fortune since 1939. The cessation of the demand for exports immediately after the outbreak of the War depressed the prices of oilseeds for a short period below even the 1939 level. However, the demand for oils and fat for a variety of purposes and in a variety of industries increased rapidly within the country and outside and oilseeds' prices rose sharply in consequence. The course that prices took, especially during the earlier period of the War, is well summarised in the following quotations from the Review of the Trade of India for the year 1943-44:—

> "It was mentioned in earlier issues of the Review that with the progress of the war the available supplies of oils and fats dwindled in several ways. The Japanese occupation of the Dutch East Indies, the Philippines and Malaya had cut off for the United Nations their most important sources of coconut oils, copra and palm oil. In India, palm oil was used in the manufacture of Vanaspati products and with its imports cut off its place was taken by vegetable oils. The occupation of Burma had cut off the mineral oil supplies of this country and vegetable oils had again to be used as a substitute. The expansion of industrial activity had also increased the demand for vegetable oils. Vegetable oils were used as fuel for diesel motors and also as lubricants for internal combustion engines. During the preceding year, the U. K. Ministry of Food had assumed complete control of Ceylon's entire exportable surplus of copra and coconut oil and rationed it among the consuming countries, India being allotted only 60,000 tons per annum as compared with her imports of 44,000 tons of copra and

170,000 gallons of coconut oil from Ceylon, India's dependence on domestic supplies of vegetable oilseeds and oil had thus further increased. The greatly increased demand for oilseeds in India as well as in other countries was thus responsible for the marked rise in the prices of oilseeds which took place during 1941-42 and 1942-43. Prices were pushed up further by other factors such as speculation, hoarding and internal transport difficulties. During the closing months of the preceding year and the first two months of the year under review, speculative activity in the oilseeds markets reached its climax. The Government of India therefore issued on the 29th May 1943 the Oilseeds (Forward Contracts Prohibition) order prohibiting forward trading in groundnut, linseed, mustard seed and rape seed or toria seed with effect from the 31st May 1943. All contracts outstanding at the close of the business on the 31st May 1943 were closed out at rates fixed by Government. Prices of groundnuts and linseed thereafter tended to decline during the rest of the year under review."

* * * * *

During the preceding year the greatly increased demand for groundnut had led to a marked rise in the prices of this commodity. During the first two months of the year under review prices of groundnuts continued their upward trend, the relative index number (19th August 1939 = 100) which stood at 278 in March 1943 rising to 303 in April and 336 in May. In these two months there were heavy purchases by the British Ministry of Food; besides, there was a good internal demand from the mills. Prices thus tended to rise and the speculators took advantage of the rise in prices to push them up still further. Speculative activity in the oilseeds markets reached its climax in the first half of May when prices registered a sharp rise. Prices of all oilseeds, however, tended to decline in the latter half of the month in sympathy with other commodity markets which had weakened as a result of the Government of India's ban on forward trading in cotton. In common with other oilseeds, prices of groundnuts also tended to decline. The groundnut market sagged further when towards the close of the month, the Bombay Government issued an order freezing stock of groundnut seeds in Bombay City and the Bombay suburban districts. As already referred to in the last section, the Government of India with a view to curbing speculative activity in the oilseeds markets issued on the 29th of May the oilseeds (Forward Contracts Prohibition) Order, prohibiting forward trading after 31st May 1943 in groundnut, linseed, mustard seed and rape seeds or toria seed. The ban on forward trading in the groundnuts as well as the other oilseeds markets had the desired effect and from June onwards till the close of the year under review prices of groundnuts declined, the index falling from 314

in June 1943 to 243 in March 1944. It may be mentioned that between March 1943 and March 1944 the index had declined by 13 per cent. During this period the quotation for Bombay Bold had declined from Rs. 18-2 per cwt. to Rs. 15-6 and that for Madras (Machine Decorticated) from Rs. 73-7 per candy of 500 lbs. to Rs. 69-12."

The downward trend of groundnut prices commented upon in the above quotations was continued in the latter half of 1944. Groundnut prices showed no recovery from the level reached in 1944 during the first half of 1945. From July 1945, however, another movement upwards of these prices began. Within less than a year groundnut prices rose by more than 50 per cent. and by the second quarter of 1946 the level of prices stood higher than the war-time maximum of May-June, 1943. The movement upward was stayed during the latter half of 1946 but prices again broke through after January 1947. The broad features of movement can be seen from the table below and the details of recent movements are given in another table, which is annexed.

Economic Adviser's Index for groundnut (Base week ending 19th August 1939=100.)

Period.	Index No.
May 1940	118
May 1941	85
May 1942	127
May 1943	336
May 1944	239
May 1945	207
May 1946	337
April 1947	461

16. For the larger part of the period of the War, no controls over prices of oilseeds had been exercised by the Central or Provincial Governments. The main factors influencing these prices as indicated in the quotations from the Review of Trade were the internal demand from consumers of vegetable oil and factories, such a Vanaspati and Soap factories and the buying operations of H. M. G.'s Ministry of Food. It was, however, realised that oilseeds' prices, apart from their intrinsic importance, had relation to prices, of foodgrains and closely influenced the operation of plans regarding crop acreages. Control over edible oilseeds and oils, and the formation of a basic plan for the distribution of the same, were among the recommendations of the Fifth All-India Food Conference held in 1945. Two Oilseeds Conferences were held in February 1946 and June 1946 at which decisions were taken for implementing the suggested policy of control. Though these decisions were not completely adopted and given effect to by all provinces and States, a number of them had controlled prices and a basic plan of distribution was already working for the year 1945-46. The decision of the Fifth All-India Food Conference relating to oilseeds' controls was taken when the War was still on. The food situation in the country continued to be difficult after the end of the War and the Government of India felt it advisable to

continue controls over oilseeds in order to facilitate control over foodgrains. It therefore called a conference in September 1946 of representatives of Provincial and State Governments to consider the question of the continuance of price control over oilseeds and oils and the formulation of a basic plan of distribution for 1946-47. At this conference the following resolution was passed:—

"Subject to a satisfactory solution to the question of exports *ex*-India and the prices to be charged for such exports, this Conference considers (*a*) that control over oilseeds, oils and oilcakes is still necessary, and (*b*) that regulation of interprovincial movement and allocation of quotas by the Centre and the regulation of prices in exporting as well as importing areas are essential features of such control. (In its view, control over prices implies co-ordinated price levels in surplus producing areas and parity prices in deficit importing areas.)" As a result of this Conference, the Government of India issued a circular letter in November 1946, advising all Provinces and States to impose controls on prices and movements of oilseeds and oils and indicated the price levels at which the control prices might be fixed. Accordingly, a certain number of Provinces and States declared controlled prices and attempted a control of movements. For a variety of reasons, however, the system did not work satisfactorily and, after a number of further conferences and exchange of ideas between the Central and Provincial and State Governments, control over oilseeds and oils was ultimately given up in March 1947. The control over oilseeds attempted in 1946-47 was therefore only partially imposed and, in no case, was it successful.

TABLE A.

Movement of Groundnut seed and oil prices.

—		Economic Adviser's Index Base 1938-39.	Groundnut bold at Bombay.		Groundnut oil paid by Vanaspati manufacturers at Bombay per ton.
			Per maund.	Per ton (app.).	
			Rs. A. P.	Rs. A. P.	Rs. A. P.
1944	October	206	9 11 9	264 15 7	....
	November	213	9 15 3	270 14 9	....
	December	217	10 3 7	278 4 9	....
1945	January	223	10 10 1	289 5 4	....
	February	224	10 9 9	288 12 7	770 0 0
	March	217	10 8 3	286 3 9	770 0 0
	April	210	10 7 9	285 6 2	770 0 0
	May	207	10 5 0	280 11 4	748 0 0
	June	212	10 8 1	285 15 3	748 0 0
	July	248	11 11 4	318 11 2	748 0 0
	August	257	11 9 2	315 0 3	748 0 0
	September	251	11 5 1	308 1 1	748 0 0
	October	253	11 9 2	315 0 3	748 0 0
	November	253	11 13 10	322 15 3	748 0 0
	December	264	12 11 4	347 14 2	748 0 0
1946	January	295	13 8 11	369 0 5	748 0 0
	February	313	15 6 1	418 10 5	748 0 0
	March	316	15 13 6	431 4 3	818 0 0

TABLE A—*contd.*

Movement of Groundnut seed and oil prices—*contd.*

—		Economic Adviser's Index Base 1938-39.	Groundnut bold at Bombay.		Groundnut oil paid by Vanaspati manufacturers at Bombay per ton.
			Per maund.	Per ton (app.).	
			Rs. A. P.	Rs. A. P.	Rs. A. P.
1946	April	315	15 15 3	434 3 11	888 0 0
	May	337	17 10 10	481 2 9	888 0 0
	June	371	18 14 8	514 14 9	999 0 0
	July	358	18 0 0	489 15 5	1,060 0 0
	August	344	16 14 3	459 12 2	1,101 0 0
	September	340	17 1 11	466 0 0	1,269 0 0
	October	344	16 3 3	441 0 9	1,148 0 0
	November	338	16 10 9	453 15 7	1,148 0 0
	December	324	15 12 5	429 6 9	1,148 0 0
1947	January	317	15 2 7	412 11 2	1,148 0 0
	February	350	22 9 4	614 11 6	1,148 0 0
	March	443	21 11 8	591 7 6	1,148 0 0

17. In considering the reasonableness or otherwise of any set of prices, the objectives of price determination must first be defined. The objectives may be defined in relation to the interests of the producer of the commodity or in relation to those of the consumer thereof or they may be defined in relation to the repercussions of the price determination on the prices and production of other commodities. From the point of view of the producer, it is usual to relate the price to either ascertained costs of production or to concepts like that of parity. In the present context, neither cost of production nor parity considerations would seem to have special relevance. A reference to Table B (pp. 12 to 14) will show that the prices of groundnut and oilseeds now stand well above the levels of most general indices and the prices of the majority of staple products of Indian agriculture. It may, therefore, be said that groundnut prices throughout the season 1946-47 ruled generally above levels that would be reached through calculations of parity. The point of view of the consumer does not give an equally definite quantitative criterion relating to reasonableness. The consumer is to-day, in the main, interested in increase in the cost of living being prevented. Any further increase in an essential consumption goods affects his standard of living and therefore is unwelcome to him and appears to him unfair. A fixation of groundnut prices at the levels attained even during the early part of 1946-47 is therefore distinctly unreasonable from the point of view of the consumer. The third aspect might prove to be the most important in the determination of groundnut prices. One of the main

TABLE B.

Economic Adviser's Index Nos. of wholesale prices (Base: week ending 19th August 1939=100) and Bombay cost of living index (Base: year ending June 1934=100).

—	Rice.	Wheat.	Sugar.	Cotton raw.	Ground-nut.	Linseed Bold Bombay.	Agricultural Commodities.	Raw materials.	General index.	Cost of living index at Bombay for working class.
	1	2	3	4	5	6	7	8	9	10
19th August 1939	100	100	100	100	100	100	100	100	100	106 (Annual average)
17th August 1940	127	126	97	117	84	94	104·9	120·3	111·3	112 (Annual average)
16th August 1941	173	170	97	146	115	121	130·0	144·7	140·5	122 (Annual average)
15th August 1942	218	222	120	125	185	(a)	150·2	162·7	158·9	157 (Annual average)
21st August 1943	1,099	367	143	..	287	212	273·6	181·4	236·8	231 (Annual average)
19th August 1944	333	386	151	183	248	219	269·8	201·3	245·3	237 (Annual average)
October 1944	333	374	159	179	206	202	262·7	208·3	243·4	239
November	333	377	167	180	213	205	268·9	209·5	246·4	242
December	333	381	167	190	217	211	273·8	210·2	249·2	236
January 1945	333	387	167	199	223	220	275·3	211·6	250·3	229
February	333	388	167	194	224	217	274·5	209·0	248·8	229
March	332	388	167	196	217	217	273·6	208·7	247·8	225
April	332	389	167	183	210	223	267·9	208·5	242·3	226

TABLE B—*contd.*

Economic Adviser's Index Nos. of wholesale prices (Base: week ending 19th August 1939=100) and Bombay cost of living index (Base: year ending June 1934=100)—contd.

—	Rice.	Wheat.	Sugar.	Cotton raw.	Ground-nut.	Linseed Bold Bombay.	Agricultural Commodities.	Raw materials.	General index.	Cost of living index at Bombay for working class.
	1	2	3	4	5	6	7	8	9	10
May 1945	333	368	167	178	207	229	258·3	208·7	238·1	230
June	335	360	167	183	212	240	256·2	208·7	237·4	235
July	335	359	167	182	248	270	268·3	212·0	244·4	240
August	335	355	167	176	257	262	268·6	210·8	244·1	243
September	324	355	167	168	251	255	264·2	210·8	242·2	240
October	321	368	167	179	253	251	268·7	210·8	244·1	242
November	321	369	167	180	253	264	271·1	210·8	243·6	242
December	321	373	167	186	264	284	278·5	211·7	247·1	242
January 1946	321	373	167	192	295	292	285	211	249	242
February	321	373	167	201	313	300	291	210	253	243
March	321	373	169	207	316	322	296	206	253	247
April	322	373	169	204	315	342	294	206	253	248
May	322	373	171	203	337	358	299	207	255	249

TABLE B—*concld.*

Economic Adviser's Index Nos. of wholesale prices (Base: week ending 19th August 1939=100) and Bombay cost of living inde (Base: year ending June 1934=100)—concld.

—	Rice.	Wheat.	Sugar.	Cotton raw.	Ground-nut.	Linseed Bold Bombay.	Agricultural Commodities.	Raw materials.	General index.	Cost of living index at Bombay for working class.
	1	2	3	4	5	6	7	8	9	10
June 1946	322	373	171	198	371	362	303	226	268	259
July	322	373	171	209	358	359	304	237	270	268
August	322	373	169	196	344	374	303	241	271	267
September	322	373	169	192	340	342	302	243	271	270
October	322	373	179	196	344	333	322	240	281	264
November	322	373	212	204	338	344	336	241	291	272
December	322	373	212	206	324	353	326	239	287	279
January 1947	319	373	212	201	317	372	315	244	284	267
February	333	373	212	196	350	397	325	249	289	263
March	..	..	..	..	..	..	..	..	..	269
April	..	..	..	..	..	..	..	..	..	..

(*a*) Market closed.

grounds on which control over prices of oilseeds has been advocated by the Government of India and by Food Administrations everywhere, has been the possible effect of a high level of prices of oilseeds on areas under foodgrains in the country. Among material circulated to members of the Oilseeds Conference in September, 1946, was included a Table showing comparative movement of prices of cereals and of oilseeds in particular provinces. From this Table we extracted some data which have special connection with the prices of groundnuts. These data, together with statistics relating to recent times, show the movements of the prices of main cereals as compared to the movements in the prices of groundnut in the two Provinces, Bombay and Madras, in which groundnut is most extensively grown. These data (Table C) bring out clearly the extent to which groundnut prices had moved out of parity with the movements in the prices of the main cereals grown in those provinces.

TABLE C.

Comparison between prices of cereals and oilseeds.

Province.	Commodity.	Average annual prices during		Indexes No. of 45-46 Price with 38-39 as base.
		Aug. '39	1945-46.	
Bombay . .	Jawar . . .	3-1-1	6-4-9	204
	Bajra . . .	3-6-6	7-3-6	213
	Groundnut . .	3-9-6	12-3-9	342
			15-10-0	345
			21-13-0*	600
Madras . .	Rice . . .	3-9-8	8-2-3	228
	Bajra . . .	2-11-9	6-11-3	240
	Groundnut . .	3-15-6	11-7-5	290
			14-0-6†	353
			20-4-10*	512

NOTE.—Prices of oilseeds in col. 3 are annual averages for 1938-39.

= Price for the week ending 18th January 1947 (Economic Adviser's quotation converted).

* Price on 30th April 1947.

† Controlled price on 3rd March 1947.

Statutory prices of Rice, Jawar and Bajra during 1945-46 have been continued without any material change during 1946-47.

18. It is no doubt impossible to forecast with any certainty the exact effect in terms of diversion of acreage of a lack of parity between prices of oilseeds and foodgrains. However, it may be safely asserted that there is greater fear of diversion of substantial acreages, the greater the disparity between the relative movements of prices of foodgrains and oilseeds. The extent of disparity reached by prices in 1945-46 has been considerably aggravated since September 1946. The recommendations made by the Sub-Committee of the Oilseeds Conference held in September 1946 attempted in some measure to maintain in the controlled prices of oilseeds a parity with prices of cereals. The controlled prices were said to be not effective. The actual prices ruling throughout the season in most areas were out of parity with the controlled prices declared for certain surplus areas. The Government of India has so far resisted the demand for an increase in the price level of cereals. It presumably still attaches importance to the aim of holding in the price level of foodgrains and of maintaining in parity the levels of prices of other agricultural commodities. The Vegetable Oil Products Controller in a letter, dated 26th April 1947, addressed to the Chairman, Vanaspati Manufacturers' Association of India thus defines the aim of Government in freezing Vanaspati price:

"With regard to the first request you are already aware that the present move of Government to peg the prices of Vanaspati is purely a temporary measure calculated to speed up *stabilisation of the prices of groundnut oil in parity with the prices of other agricultural commodities consequent upon decontrol* of edible oilseeds and oils." (Emphasis ours.) On this basis, any levels of prices substantially higher than the levels recommended as the levels of controlled prices following the Oilseeds Conference of September 1946, cannot be considered reasonable. In our opinion, it would constitute a very considerable, an almost fatal break, in an integrated price level policy for government to fix a set of controlled prices which are based on prices of oilseeds or oils very much above the level recommended for control during the year 1946-47. Temporary decontrol on the plea of failure of administrative machinery is bad enough. It, however, makes no definite break in principle or policy. But the announcement of a controlled price of which the base is formed by a price, whose level is completely inconsistent with Government policy, is a step which can in no circumstances be recommended to Government.

19. It is necessary in this connection to discuss the main factors governing the determination of the level of groundnut and groundnut oil prices at present. Today, the main buyers in bulk are Vanaspati factories, soap factories, exporters and oil mills. The oil mills produce oil both for sale to consumers who use oil as a base for their industries such as Vanaspati and soap factories, and to the public for purposes of domestic consumption. It has been calculated that at present roughly 50 per cent. of total production is taken up by Vanaspati factories, soap factories and export allocations while the remaining half may be presumed to be the supply retained for domestic consumption. It is generally recognised that holding of stocks by the producer himself is of even less significance in oilseeds than in cereals and that a good proportion of the marketable surplus finds its way early into the hands of traders and of mills. The price fluctuations during the course of the year, after the months of the harvest, are thus due mainly to the operations of oil mills, of traders and speculators in kernel and oil

and of bulk consumers such as Vanaspati and soap factories and exporters. The Report on the Marketing of Groundnuts remarked upon the phenomenon of a deep trough in prices between the months September-December. The explanation of the phenomenal increase in prices groundnut must therefore be found apart from the demand or activities of producers in either a special relation of supply to requirements or in the activities of traders and speculators.

20. The existing supply of groundnut kernel and oil for domestic consumption does not seem to be so short as the supply of a number of other commodities. Calculations made in the table given below indicate that groundnut oil available for domestic consumption should ordinarily be of, at least, the same volume during the current year as during the average of the triennium ending 1939-40.

TABLE D.

Estimated quantities of groundnut kernel and vegetable oil available for domestic consumption (in terms of kernel)

(*In thousand tons.*)

—	Average for three years ending '39-40.	1946-47.
Estimated production of Kernel	2,306	2,200
Seed requirement at 10 %	231	220
Net available	2,075	1,980
Net exports	964	300
Net retained in India	1,111	1,680
Demand from Vanaspati factories	120	500
Demand from Soap Industry	75	200
Net vegetable oil and kernel available for domestic consumption	916	980

It is true that groundnut oil may be in demand as a substitute for other oils, such as Sesamum, whose production has fallen or cocoanut oil, whose imports have diminished to a large extent or for adulteration with oils like mustard oil. Even so, the demand for domestic consumption would not, on the statistical date, suffice to explain the very large spurt in prices that has taken place recently. It is sometimes alleged that the activities of manufacturers of Vanaspati are responsible for increasing the prices of groundnut and groundnut oil, and also that the cost plus basis followed by the Food Department in determining the prices of Vanaspati has a special responsibility in this regard. It is not possible for us to make any generalisation in this matter.

However, on the data available to us, the activities of Vanaspati manufacturers do not seem to bear any special responsibility for the movements of prices during 1946-47. Table A will show that the prices of groundnut oil forming the basis of the price of Vanaspati did not increase seriously during the period September 1946 and February 1947. In zone A which is considered crucial the basis was maintained uniform after September 1946. This means that the variations in the prices paid during these months did not result in the weighted average going up by the minimum necessary for making a change. Whatever the influence of the prices offered by Vanaspati manufacturers up to September 1946, no added incentive to price increase seems to have been afforded by them later. After the freezing of Vanaspati prices in the first week of March 1947, a large number of manufacturers of Vanaspati are reported to have ceased production and, we are informed, have also ceased buying fresh supplies of groundnut oil. It seems, therefore, hardly likely that the activities of Vanaspati manufacturers have been directly responsible for the considerable increase in prices that has taken place in recent months. The other large demand which may exercise a considerable influence on the market is that for export. The Government of India have promised the International Emergency Food Council to export out of India, during the year 1946-47, 120,000 tons of groundnut oil. No large part of this quota seems to have been actually exported so far nor are any important allotments of export quota reported to have been actually made. It cannot, therefore, be said that there has been a direct export demand in the sense of persons who have obtained licences for export buying for export purposes in the market. It is, however, likely that potential exporters and traders who hoped to sell to exporters have been active throughout the past few months on the market and that this together with general speculative activities are responsible for raising the prices very high. It is pertinent to observe in this connection that while speculation may serve a useful economic purpose in a completely free economy, its performance is highly doubtful when the economy is partially closed and controlled. The activities of even influential and powerful speculators can be curbed in a free market by large movements of produce and the possibility of the physical movement of produce keeps in check both the activities of speculators and their capacity to corner markets. In a closed and partially controlled economy, these checks on speculative action are absent and in such circumstances, continued feverish speculation can push up prices to any heights without a corrective force automatically coming into operation. There is little doubt that the present state of groundnut prices is an example of the result of unchecked speculative activity.

21. This result, it seems to us, has been possible chiefly because of the uncertainty regarding the intentions of Government about exports. The total export quota promised by the Government of India has been known. The system by which the actual exports would take place has not yet been completely determined or rather the determination of the system seems to be in a continuous state of flux. Sometime ago, it was announced that a system of tenders for giving export licences had been adopted. The system has however been recently given up and general export licences are, it seems, to be reallowed. In announcing the system of tenders, Government had described it as a halfway house between export on private account and Government

trading. It had declared that Government had decided to give this half-way measure a trial. It is not yet known whether the giving up of the tender system has resulted in Government accepting a position either of complete private trading or of complete Government trading.

22. It is necessary before we proceed further to point out the possible results of the adoption of a system of private trading on groundnut prices and through them on the economy of the country. The letter from the Finance Department referring the matter under consideration to the Board contains the following regarding exports :—

> "If they recommend continuance of control, the Board will doubtless consider the effect on the economy of the country, of control over Vanaspati prices combined with export during the next six months of 40 per cent. of 120,000 tons of groundnut oil at uncontrolled prices."

The implications of this sentence are not completely clear to us. Regarding the quantity of export at uncontrolled prices being expressed at 40 per cent. of 120,000 tons, the explanation that we were able to obtain from the Commerce Department was that 40 per cent. was the share of the total exports which it was intended to export through private channels. It seems that 40 per cent. of 120,000 tons does not represent the total of exports during the year 1946-47. It is evidently still intended to export a total of 120,000 tons. 40 per cent. of this would, however, be exported through private channels and, presumably, the rest might be exported on account of Government. The expression "export of 40 per cent. of 120,000 tons at uncontrolled prices" thus most probably means that Government would not be able to or would not care to exercise any control over the prices at which exporters who had been licensed to export on private trading account would make their purchases in the market. If Government has no intention of controlling in any manner whatever the activities of exporters of 40 per cent. of 120,000 tons to whom it issues licences, the position of the groundnut market must continue to remain uncertain.

23. In relation to groundnut prices, as with many other commodities, we are facing a situation where the internal price level and the external price level are at considerable variance. As with other essential raw materials in short supply, the prices in the producing countries have not yet risen as high as the prices which the countries who desire to import these essential commodities are temporarily willing to pay. In times of depression, and in this opposite situation there are two ways in which the Government of a country can act. It can, on the one hand, leave trading entirely free and leave the forces of the international markets fully to effect the internal economy of the country. When prices for particular products are very high in the international market, the internal price level of such products must mount in sympathy if there are no controls exercised over exports and prices paid for exports. If export is completely free, then the internal price level must come into close correspondence with the export price level. If export is quantitatively restricted but no efforts are made to control the prices paid by exporters, the export price will effect perhaps in a smaller, but yet a very substantial measure, the prices paid for the commodity internally. If export prices are freely allowed to influence internal price levels of essential commodities, the economy of a country is laid open to all the changing factors in the international situation. A price that suddenly shoots up on the international market may as suddenly

fall and an export price that lead to a sudden boom in particular prices in one year may lead equally to a sudden slump in a year or two. The internal price levels of essential commodities are usually in some relation with each other; so that the influence exercised through the temporary increase in the international price of one commodity on the internal price of that commodity cannot be confined to the price of that commodity alone. If oilseed prices rise high because, temporarily, the demand for oilseeds and oil is intense, the internal prices of other commodities such as cereals may move in sympathy. These two important considerations, firstly, that it is not desirable to allow internal prices to move up and down entirely at the mercy of international forces, especially in times of transition like the present, and, secondly, that individual important internal prices affect the whole system of internal prices, have led a number of important producing countries to try and insulate their internal price systems from the impacts of international price movements. As a matter of fact, this may be considered a particular case of the general trend in policy since the depression of the thirties, for Governments to try and stabilise the internal price levels, protecting it from any violent fluctuations in the international market. No doubt, the temptation in the producing countries is immediately to think in terms of the benefit of the high export price to the producer. The benefit to the producer is however always a doubtful quantity. In the first instance, a large part of the benefit is apt to be cornered by intermediaries. Further the benefit to the producer of any temporarily high price is offset by the dislocation in his economy that such a price will bring about and by laying him open, as a corollary, at a later time to as large or a larger downward movement of prices. The examples of Canada and Argentina may be cited. In these countries, through activities of separate Boards of Departments of Central Banks, the prices obtained by the domestic producer and the prices that are to be paid by the domestic consumer are kept largely out of the influence of temporary fluctuations of the international market. No doubt even with these control devices, a strong and continuous upward urge on the international market is duly reflected by some movement upwards in the internal price but both the rapidity and the extent of the adjustment are moderated so that the total impact on the internal economy is not violent.

24. In our opinion, the India Government should immediately make up its mind as to the policy that it desires to follow in these circumstances. If it desires to protect particular internal prices from the effects of external price fluctuations, it must immediately take effective appropriate action. It must, if it decides to do this, either assume all trading on export account in commodities effected in this manner in its own hands or set up a Government corporation for this purpose. The aims of such a policy would in the first instance be to assure a steady and fair price to the domestic producer, to keep in check the rise of prices to the domestic consumer and to obtain for the community as a whole any special margin of profit that may remain between the internal and external price. That the community as a whole needs such resources in India is obvious. The total deficits to be incurred on account of the mounting costs and volumes of essential imports are very large. The finance of these essential imports must be at least partly met out of the profits that may be made from the exports at favourable prices of essential commodities.

25. Having expressed our views on groundnut prices, we next turn our attention to the structure of the prices of Vanaspati. The price for Vanaspati was first determined for purposes of defence contracts during 1943. The original basis of determination was information available with the Supply Department relating to the cost of production of stearine, a product somewhat inferior to Vanaspati. Later on, on the basis of information given by producers of Vanaspati, an overall charge of Rs. 355 per ton was added to the cost of groundnut oil as covering all processing and other charges. This was felt to be excessive and was reduced in negotiations with Vanaspati producers to Rs. 335 per ton in December 1943 and was further reduced to Rs. 262 towards the end of 1944. This price formula continued to be the basis of Defence contracts. The price for civil supplies was entirely uncontrolled until many months after the promulgation of the Prevention of Hoarding and Profiteering Ordinance. When the price for civil supplies was uncontrolled it was often found that the Defence Department was not able to obtain its supplies in full as the civil market offered opportunities for much greater profit to the manufacturers of Vanaspati. After the promulgation of the Hoarding and Profiteering Ordinance, the Controller General notified in August 1944 certain prices for various brands of Vanaspati. On this notification, manufacturers of Vanaspati represented to the Controller General that the margin of 20 per cent. for the total cost of distribution of Vanaspati all over India was too small for the industry and that this should be raised to at least 25 per cent. The problem was considered in detail at a conference held in October 1944 at which a general price structure for civil supplies was arrived at. The price structure for bulk packs was modelled on the price structure for defence contracts as determined by the Food Department. For three of the four zones into which the country was divided for price announcements, there was added a charge on account of average zonal freight. The Rs. 262 in the Defence Department price was split into the following:—

Rs. 130 . . .	Processing charge.
Rs. 62 . . .	Cost of tins.
Rs. 70 . . .	Profit.

The main difference between the Defence Department charge and the civil supply price was an additional charge of Rs. 35 on account of processing and an extra margin of Rs. 15 in the rate of profits. The price of small packs was, however, not calculated on the same basis as that of Vanaspati packed in bulk and certain *ad hoc* calculations were made in October 1944 in arriving at the announced price at wholesale and retail for small packs, that is packs under ten lbs. Suggestions made later for determining the price of small packs on the same basis as for bulk packs were not accepted by industry and were evidently not pressed hard by Government. It is alleged that the small pack price gives an even larger margin than bulk packs to manufacturers.

26. This system of pricing of Vanaspati provisionally adopted for purposes of announcement under the Hoarding and Profiteering Ordinance was continued by the Food Department when it took over from the Controller General of Civil Supplies the function of the determination and fixation of the prices of Vanaspati for civil supplies. This happened in February 1945 from which month to March 1947, the fixation of prices of Vanaspati has continued on the same basis. It will be observed that the method of price determination is to ascertain

the cost of raw materials and add to it certain fixed processing and other charges. This method was perhaps appropriate for Defence contracts in uncertain times as in 1942-43 and was perhaps inevitable when the industry was new and was being encouraged to grow. The cost-plus basis was however carried on and applied to controlled prices in connection with civil supplies and the figures of cost of processing etc. assumed were fixed on a higher level than those sanctioned for Defence purchases in 1945 on the basis of costings for 1944. During the period of two years (1945-47), in which the Food Department has administered control over prices of Vanaspati, no effort seems to have been made to change this cost-plus method of price determination. We have also not found that any attempt has been made since 1945 to examine actual costs of manufacture of various producers and to ascertain how far the charges allowed in the prevailing price structure are justified or not. The results of one set of calculations relating to the year 1943 that we have seen indicated for the leading producers of Vanaspati for that year a profit of over 50 per cent. on the total capital at charge. No results of examinations of cost figures are available for any period later than the latter half of the year 1944. Obviously, no detailed enquiry into actual costs was undertaken after price administration was taken over by the Food Department and there certainly seems to have been no enquiry into the relation of actual costs to any definitive standards of economy and efficiency.

Criticism has frequently been made that a cost-plus basis of price fixation gives no incentive to the manufacturer to buy his raw materials economically. In this particular instance, the price fixed was on the basis of certificates of purchase prices vouched for by auditors of individual companies acting on behalf of Government. In only exceptional cases of flagrant differences in purchase prices paid for in the same zone have these returns, made by auditors of Companies, been subjected to any further scrutiny or correction. Another element which has worked in favour of the manufacturers has been that the price fixed has always been rounded up to a figure of the nearest multiple of Rs. 35. This has given an average increment in price over and above the calculated price to the manufacturers. We further notice that whereas initially, the price was determined on the basis of purchase prices of groundnut oil for a period of two months at a time and the price was changed when a difference of Rs. 70 per ton was reached, this was, at the representation of manufacturers, altered to the purchase prices of one month forming the basis of assessment and a change being made for every difference of Rs. 35. Both these alterations make for more frequent changes in prices and give advantage to manufacturers of a rising market to a larger extent than would have been possible under the original basis. It is true that the new basis would work against manufacturers' interests in a period of falling prices of raw materials as much as it works to their advantage during a period of rising prices. However, the fact remains that the original basis was changed on the proposal of the manufacturers and has operated almost continuously in a time of rising prices of groundnut and groundnut oil.

27. From this brief survey, the following would appear to be clear:

(1) A basis that may have been appropriate during time of war for Defence requirements in a new industry has not been changed even though today the prices fixed are, in the main, for civil supplies and the industry is well-established;

(2) The total of charges allowed are related to certain calculations made many years ago, which, at least then, were known to leave a generous margin over actual costs to certain important producers in the industry. No attempt has recently been made to assess results in actual practice. The treatment of the industry at the hands of Government as exemplified by assessments making for more frequent adjustments and the pricing of small packs may be said to have been consistently generous;

(3) There is nothing to show that the allowed profit of Rs. 85 per ton is reasonable for a sheltered industry with an assured market like the Vanaspati industry.

We note that neither the Finance nor the Food Department have in their possession information, published or otherwise, relating to the results of the working of Vanaspati factories in any recent years. The short time at our disposal did not permit us to examine in greater detail, the structure of Vanaspati prices and the reasonableness of the various charges included in it. Such an examination must obviously be conducted by Government and controlled prices for the future recast in its light.

28. Before the present reference was made to us, a meeting of representatives of the Government of India and representatives of the manufacturers of Vanaspati was held. The minutes of this meeting have been sent to us with the papers included in the reference. At this meeting, the manufacturers of Vanaspati suggested that the price of Vanaspati might be fixed on the basis of the price of groundnut oil at Bombay of Rs. 1,400 per ton, the price actually ruling at the time of the meeting early in May, and that the price of Vanaspati fixed on the basis of this price might be maintained for a period of three months leaving the industry to bear the loss or gain which might accrue. The implications of this proposal are not clear to us. The reference to loss or gain may mean that the industry would be prepared to continue full production for the three months, even though prices rise substantially above the estimated level of Rs. 1,400 per ton or it may merely mean that the industrialists confidently expect prices not to rise above 1,400 at Bombay and therefore expect to be able to keep on producing for three months. The material question is whether the proposal involves any definitive commitment on the part of industry. The two representatives of the industry who saw us in Simla were definite that there was no such commitment. They pointed out that if groundnut oil prices ruled substantially above 1,400, their factories would not bear continuous losses over production of Vanaspati for the larger part of a quarter. They stated that even though Government agreed to fixing the prices of Vanaspati on the Rs. 1,400 basis, Vanaspati factories would have to close down production during the quarter if prices of groundnut oil continued to move upwards. On this interpretation, the proposal of the industry does not really amount to any more than inviting Government to fix Vanaspati price on the basis of existing prices of groundnut oil and expressing the hope that, as has often happened in the past, a change in the basis would not be required for three months.

The Vanaspati manufacturers have a legitimate grievance arising out of the freezing of Vanaspati prices by Government. As a result of

TABLE E.

Prices of Banaspati.

Period.		Total per ton in zone.				Per lb. for large pack in zone.				Retail price per lb. pack.
1		A 2	B 3	C 4	D 5	A 6	B 7	C 8	D 9	10
						Rs. A. P.	Rs. A. P.	Rs. A. P.	Rs. A. P.	Rs. A. P.
1944	October . . .	..	..	..	..	0 9 9	0 10 8	0 11 9	0 11 9	0 14 3
	November . .	..	..	..	..	0 9 9	0 10 8	0 10 8	0 11 9	0 14 3
	December . .	..	..	..	..	0 9 9	0 10 8	0 10 8	0 11 9	0 14 3
1945	January . .	..	..	..	..	0 9 9	0 10 8	0 10 8	0 11 9	0 14 3
	February . .	1.186	..	..	..	0 9 9	0 10 6	0 11 0	0 11 9	0 14 3
	March . . .	1,186	..	..	..	0 9 9	0 10 6	0 11 0	0 11 9	0 14 3
	April . . .	1,186	..	..	..	0 9 9	0 10 6	0 11 0	0 11 9	0 14 3
	May . . .	1,164	1,254	1,370	1,433	0 9 3	0 9 0	0 10 9	0 11 0	0 13 9
	June . . .	1,164	1,254	1,370	1,433	0 9 3	0 9 9	0 10 9	0 11 0	0 13 9
	July . . .	1,164	1,254	1,370	1,336	0 9 3	0 9 9	0 10 9	0 10 6	0 13 9
	August . . .	1,164	1,254	1,370	1,366	0 9 3	0 9 9	0 10 9	0 10 6	0 13 9
	September . .	1,164	1,254	1,370	1,330	0 9 3	0 9 0	0 10 9	0 10 6	0 13 9
	October . . .	1,164	1,254	1,209	1,336	0 9 3	0 9 0	0 10 3	0 10 6	0 13 9
	November . .	1,164	1 254	1,200	1,336	0 9 3	0 9 0	0 10 3	0 10 6	0 13 9
	December . .	1,164	1,254	1,200	1,410	0 9 3	0 9 0	0 10 3	0 11 0	0 13 9

TABLE F.

Prices of Banaspati.

Period.		Total per ton in zone.				Per lb. for large pack in zone.				Retail price per lb. pack.
1		A 2	B 3	C 4	D 5	A 6	B 7	C 8	D 9	10
						Rs. A. P.	Rs. A. P.	Rs. A. P.	Rs. A. P.	Rs. A. P.
1946	January	1,164	1,254	1,299	1,410	0 9 3	0 9 9	0 10 3	0 11 0	0 13 9
	February	1,164	1,254	1,299	1,410	0 9 3	0 9 9	0 10 3	0 11 0	0 13 9
	March	1,230	1,280	1,439	1,445	0 9 9	0 10 3	0 11 3	0 11 3	0 14 3
	April	1,300	1,315	1,509	1,445	0 10 3	0 10 6	0 11 9	0 11 3	0 14 3
	May	1,300	1,315	1,601	1,570	0 10 3	0 10 6	0 12 3	0 12 0	0 15 3
	June	1,411	1,452	1,601	1,570	0 10 9	0 11 3	0 12 3	0 12 0	0 15 3
	July	1,472	1,509	1,635	1,570	0 11 6	0 11 9	0 12 6	0 12 0	1 0 0
	August	1,518	1,561	1,684	1,654	0 11 9	0 12 0	0 13 0	0 12 9	1 0 6
	September	1,681	1,697	1,738	1,654	0 13 0	0 13 0	0 13 3	0 12 9	1 1 3
	October	1,560	1,609	1,738	1,695	0 12 0	0 12 3	0 13 3	0 13 0	1 1 3
	November	1,560	1,609	1,738	1,695	0 12 0	0 12 3	0 13 3	0 13 0	1 1 3
	December	1,560	1,609	1,738	1,757	0 12 0	0 12 3	0 13 3	0 13 6	1 1 3
1947	January	1,560	1,609	1,738	1 757	0 12 0	0 12 3	0 13 3	0 13 6	1 1 3
	February	1,560	1,609	1,738	1,757	0 12 0	0 12 3	0 13 3	0 13 6	1 1 3
	March	1,560	1,609	1,738	1,695	0 12 0	0 12 3	0 13 3	0 13 0	1 1 3

this freezing, most Vanaspati factories have had to be closed for varying periods. The freezing of Vanaspati prices as an indirect means of influencing groundnut prices has not brought about the stabilisation of groundnut prices in parity with prices of other agricultural products which it was expected to achieve. The measure has, at the same time, inflicted hardship on Vanaspati manufacturers. While conscious of this position, we are unable to accept the proposal made by Vanaspati manufacturers. We feel that Vanaspati prices must be tackled in relation to prices of groundnut oil and oilseeds. Any partial measure at this stage is not likely to help the solution of even this particular problem. Our recommendations are, therefore, directed towards an immediate and stable solution of the problem of the prices of both groundnut and Vanaspati.

29. The Board has been requested to advise (1) whether control over the prices of Vanaspati should be abandoned, and (2) if not, at what level should Vanaspati prices be controlled. We proceed to state our opinion on these points:

(1) We have pointed out initially three reasons why Vanaspati may be controlled. Firstly, Vanaspati is an important consumer good; secondly, its control forms part of oilseeds and oil control and thirdly, control is necessary in order to influence the expansion of the industry. In our opinion, the control of Vanaspati as part of a control of oilseeds and oils is of very considerable importance. In a general note on controls that we submitted to Government on 19th April, we have pointed out how a certain minimum number of co-ordinated controls must be maintained and how an effective planning of agricultural production and the price control of cereals would be impossible, if all attempt to control the prices of oilseeds and oil was given up. We are therefore definitely of the opinion that Government should resume at the earliest opportunity its efforts to influence and limit the prices of edible oilseeds and oils.

Moreover, the case for the control of Vanaspati based on the need for restricting the expansion of the industry is by itself strong. Certain calculations made by us above show how, at the present time, the total supply of groundnut kernel and oil for domestic consumption is not considerably above the supply available in pre-war years. The calculations were not made on a *per capita* basis and ignored the effect of the rise in population during the last decade. On a *per capita* basis the present effective supply for domestic consumption might just about equal pre-war levels. It is learned that following a report of a Sub-Committee, Government has placed before itself a target of expansion of the industry to a capacity more than double its present capacity, at which stage its consumption of groundnut may be roughly about three times its actual consumption today. If acreage and production under groundnut remain more or less at present figures (and in a short period like five years, no large increase in them can be expected) then the contemplated expansion of the industry will have serious consequences on domestic consumption of groundnut kernel and oil. For, if the industry only doubles its present consumption, this will cut down by half the present domestic supply which will vanish entirely if the consumption of the industry is trebled. It is obvious that this eventuality cannot be faced lightly.

The conversion of groundnut oil to Vanaspati cannot take the place of the previous consumption of groundnut oil. The main areas of the

consumption of Vanaspati and groundnut oil and the main classes who consume them are entirely distinct. Whereas the main consumption of groundnut oil is among the poorer classes and the lower middle class and is largely concentrated in Peninsular India, the main consumption of Vanaspati is reported amongst the middle and richer classes throughout the country and among a rather larger section of the poorer classes in the United Provinces, Sind and the Punjab. Thus, a diversion of groundnut oil to Vanaspati manufacture, means a serious dimminution in quantities of an essential commodity available to the poorest classes in certain regions of the country. If the expansion of the industry is to be controlled, a continuous control on the prices at which Vanaspati is marketed must be retained by Government. Otherwise, it will be legitimately open to the charge that it has secured for a privileged section amongst the capitalists a position of completely exploiting a monopolistic market. Immediate decontrol of Vanaspati prices is likely to have only one effect, that of raising its prices in a large measure. adding to the cost of living of large numbers and augmenting considerably the profits of Vanaspati manufacturers. No large immediate increase in Vanaspati production is likely to take place nor are there any competitive substitutes, internal or external, available. In view of these circumstances, we are unable to recommend decontrol of the prices of Vanaspati.

(2) We are, at the same time, unable to accept the plea that Vanaspati prices be raised on the basis of a price of Rs. 1,400 for groundnut oil at Bombay. We cannot consider any prices other than prices round about the level indicated by the Government of India circular letter of November 1946 as reasonable internal prices for groundnut. We are unable to recommend that Government should commit itself to any price announcement in which a price seriously out of parity with the general indices and with the prices of cereals and cotton should be accepted as the basis. We, therefore, recommend that Vanaspati prices should be maintained at the level at which they have at present been frozen. Government in the Food Department should also immediately undertake an enquiry which would enable it to arrive at a more satisfactory basis than the present one of the determination and fixation of Vanaspati prices.

In order to make this policy effective, Government should eliminate the factor of the export of 40 per cent. of the 120,000 tons at uncontrolled prices operating on the market for groundnuts. It should immediately announce the taking over of the complete export of groundnuts on its own account. It should also announce its determination to control groundnut prices for the next season at a reasonable relation with the prices of cereals and other agricultural products.

30. We are aware that these are somewhat drastic recommendations. We have been greatly impressed by the seriousness of the situation created by uncertainty and drift. In our opinion, Government should now decide immediately whether it wishes to follow a regime of planned and controlled economic activity or whether it desires to revert to laissez-faire. We do not see any merit in a situation where control is haphazard and results chiefly in benefit to speculative traders and to privileged classes of merchants and industrialists.

A. D. GORWALA,—19-5-47.

D. R. GADGIL,—19-5-47.

APPENDIX I.

PRESS NOTE.

Vanaspati Prices Increased.

To maintain the parity between the prices of groundnut oil and Vanaspati, the Government of India have sanctioned, with effect from June 23, an increase of annas 2/3 per lb. for bulk packs of Vanaspati. These revised prices will remain unaltered for the next three months.

Food Department,
New Delhi, July 10, 1947.

APPENDIX II.

GOVERNMENT OF INDIA.

FOOD DEPARTMENT.

New Delhi, the 23rd June 1947.

NOTIFICATION.

No. 6 VP (2)/47.—In exercise of the powers conferred upon me by sub-clause (1) of Clause 6 of the Vegetable Oil Products Control Order, 1946, and in supersession of the Notification of the Government of India in the Department of Food No. 6 VP (2)/47, dated the 28th February 1947, I, hereby fix as follows the maximum prices at which vegetable oil products may be sold with immediate effect:—

TABLE I.

Locality of sale.	Maximum price per lb., net of vegetable oil products.		
	When sold by producer or distributing agent in large packs.	When sold by any other person.	
		In large packs.	Loose in small quantities.
	Rs. a. p.	Rs. a. p.	Rs. a. p.
ZONE 'A'			
1. Bombay town and Suburbs . . .	0 13 6	0 14 3	0 15 0
ZONE 'B'			
2. Bombay province (excluding Bombay town and suburbs), administered areas and Rly. lands in the former W. I. States agency, Madras. The Central Provinces and Berar, Coorg and Panth-Piploda	0 13 9	0 14 6	0 15 3
ZONE 'C'			
3. The Punjab, the United Provinces, Sind, North-West Frontier Provinces, Baluchistan, Delhi and Ajmer	0 14 9	0 15 6	1 0 3
ZONE 'D'			
4. Bengal, Assam, Orissa and Bihar . .	0 14 6	0 15 3	1 0 0

NOTE.—Large packs are packs (in producer's original sealed containers) containing not less than 35 lbs. net of the products.

TABLE II.

Description.	Maximum price per pack of vegetabl oil product when sold in small packs.							
	ZONE "A"		ZONE "B"		ZONE "C"		ZONE "D"	
	Whole-sale.	Retail.	Whole-sale.	Retail.	Whole-sale.	Retail.	Whole-sale.	Retail.
	Rs. A. P.	Rs. A. P.	Rs. A. P.	Rs. A. P.	Rs. A. P.	Rs. A. P.	Rs. A. P.	Rs. A. P.
Packs containing 10 lbs.	10 3 6	10 9 6	10 6 0	10 12 0	11 0 0	11 6 0	11 0 0	11 6 0
Packs containing 9 lbs.	9 3 0	9 8 6	9 5 3	9 10 9	9 14 3	10 3 9	9 14 3	10 3 9
Packs containing 5 lbs.	5 5 6	5 8 9	5 6 9	5 10 0	5 11 9	5 15 0	5 11 9	5 15 0
Packs containing 3 lbs.	3 5 3	3 7 3	3 6 0	3 8 0	3 9 0	3 10 0	3 9 0	3 11 0
Packs containing 2 lbs.	2 3 6	2 5 0	2 4 0	2 5 6	2 6 0	2 7 6	2 6 0	2 7 6
Packs containing 1 lb.	1 2 0	1 2 9	1 2 3	1 3 0	1 3 3	1 4 0	1 3 3	1 4 0

NOTE.—The maximum prices specified above under I and II are inclusive of freight but exclusive of octroi terminal tax and similar other local taxes and also of sales tax.

When any such tax is paid, whether by the manufacturer, his distributing agent, a wholesaler or a retailer the maximum price as fixed above in respect of any transaction may be increased by an amount equal to the total of the taxes so paid at or before that transaction and may, after the increase, be rounded off to the nearest price.

N. T. MONE,

Vegetable Oil Products Controller for India.

Copy for all concerned.

By order, etc.,

S. SWARUP,

for *Vegetable Oil Products Controller for India.*

MGIPC—L—IV-37—19-9-47—750.